Directorate of Intelligence

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European Review

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12 September 1986

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European Review [redacted] 25X1

12 September 1986

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Turkey hopes to modernize its relatively new electronics industry by coproducing subsystems for major new weapons but will need extensive US or West European technology, training, and capital. An advanced electronics industry is a key element in Ankara's military-industrial modernization program and, if achieved, would move Turkey a step closer to self-sufficiency in arms production. [redacted]

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views. Comments may be directed to the authors [redacted]

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European Review [redacted] 25X1

Briefs

Canada

Naval Operations in the Northwest Passage [redacted] 25X1

Canada is conducting a two-month naval exercise in the Arctic waters of the Northwest Passage that will run until early October, [redacted] 25X1 [redacted] This is the first northern deployment of Maritime Command ships in seven years. The object of the exercise is to gather military and scientific information on the acoustic properties of shallow and deep water at extreme northern latitudes. This information will help the navy improve antisubmarine sensor systems and design new submarine, ship, and aircraft detection systems. [redacted] 25X1

The deployments also are part of a broader effort to assert Canadian sovereignty over the internationally disputed Northwest Passage. The Department of National Defense recently approved the preliminary phase of a $719 million program to replace its aging fleet of three Oberon-class diesel-powered submarines with new submarines that can operate for extended periods under the ice. [redacted] 25X1 [redacted] may abandon its plans to build a large icebreaker in favor of more versatile submarines that would provide a more realistic and effective means of asserting Canadian sovereignty in the Arctic. [redacted] 25X1

France-Lebanon

UNIFIL Controversy [redacted] 25X1

Recent fighting between France's UNIFIL contingent and Amal militias in Lebanon is forcing Paris to reconsider its position on UNIFIL. Prime Minister Chirac and Defense Minister Giraud are reportedly considering withdrawing France's 1,400-man contingent despite public statements to the contrary, according to the French press. [redacted] 25X1 [redacted] 25X1

Chirac almost certainly believes that heightened tensions between the UNIFIL troops and Amal militias—perhaps supported by pro-Iranian Hizballah elements—may endanger French hostages in Lebanon. He also probably fears that if UNIFIL troops are killed public opinion would turn sharply critical of his efforts to secure the release of French hostages by normalizing relations with Tehran. Chirac, who has apparently consolidated control over hostage negotiations, probably has not yet decided to withdraw French troops but is likely to consider reducing the French commitment to UNIFIL if the United Nations does not undertake to protect the troops and if fighting continues. [redacted] 25X1 [redacted] 25X1

United Kingdom

Nimrod Decision Delayed Again [redacted] 25X1

The Defense Ministry has given the General Electric Company (UK) a one-month extension to prove that it has solved the numerous technical problems in the advanced radar tracking system for the Nimrod airborne early warning aircraft, according to the US Embassy. Defense Secretary Younger will make his recommendation on whether to continue with the project at the end of September for Cabinet consideration in October. Three major British contractors, meanwhile, have announced an offset agreement with one of the US manufacturers of the E-3 AWACS to provide high-tech aerospace work in Britain if this aircraft is selected instead. [redacted] 25X1

The extension may indicate a belief that General Electric can salvage the Nimrod program, which already has cost $1.5 billion. The government, however, may be trying to cover itself politically in case it decides to buy the US system. Prime Minister Thatcher's final decision probably will draw fire whatever the outcome.

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Denmark

More Posturing on Nuclear Issues [redacted] 25X1

Danish Foreign Minister Ellemann-Jensen, in response to a question from a leftwing member of parliament, said that Danish and New Zealand policies on visits by nuclear-capable ships are the same insofar as neither country accepts nuclear weapons in its territory in peacetime, "including nuclear weapons on board ships." However, because Denmark does not ask for guarantees that visiting ships do not carry nuclear weapons, this restatement of longstanding Danish policy still leaves room for the US "neither-confirm-nor-deny" policy on port calls. New Zealand, by asking for such guarantees, refuses to accept the US position. Nevertheless, Ellemann-Jensen's statement was touted in the New Zealand press as confirmation that the two countries' policies are identical. [redacted] 25X1

The exchange reflects renewed efforts by the Danish socialist parties to pressure the government on nuclear issues, hoping to turn public opposition to nuclear weapons into support for the left. Social Democratic leader and former Prime Minister Anker Jorgensen, for example, recently repeated his appeal to ban nuclear weapons from Danish soil, even in wartime. Such antinuclear measures would not be compatible with Danish NATO obligations, but the Social Democrats prefer to play down this relationship in an effort to make points at the government's expense. [redacted] 25X1

The conservative-led government coalition, for its part, is reluctant to state its own policy forcefully for fear of appearing to support nuclear weapons rather than merely tolerating them. Even so, the Social Democrats will probably not press the nuclear issue in parliament because the government, by calling for a vote of confidence, could turn the question into one of support for NATO or opposition to nuclear weapons. Since a clear majority of Danes support NATO, the socialists would then most likely back down. [redacted] 25X1

Eastern Europe–China

Moving Toward Better Relations [redacted] 25X1

Several East European states plan to improve relations with China, presumably with Moscow's blessing. Polish leader Jaruzelski is reportedly to arrive in Beijing at the end of September for a brief working visit. East German leader Honecker will visit China in October, according to a press report, and there are indications that Hungarian leader Kadar may be considering a trip to Beijing. [redacted] 25X1

[redacted] 25X1

Changes on this scale would not be possible without the support of the Soviets, who may hope that such movement will pave the way for the normalization of their party relations with Beijing. The East Europeans will probably stay close to the course Moscow charts for them but will use increased contacts to improve trade relations and gain political prestige, and—in the case of Hungary—to develop ties to another reform-oriented Communist state. The Chinese are likely to react positively to the East European overtures and may try to use them to encourage independent tendencies and further economic reform in Eastern Europe. [redacted] 25X1

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Articles

United Kingdom: The Drug Problem

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Drug abuse in the United Kingdom has become more pervasive in recent years and is rising rapidly. The growing magnitude of the problem has prompted the Thatcher government to formulate a comprehensive strategy to combat drug abuse and trafficking, including greater cooperation with US authorities to deter the transshipment of drugs and to curb money laundering. While this is a promising beginning, budgetary constraints and competing priorities—along with the growing demand for drugs and the tenacity of drug traffickers—will continue to hinder government efforts.

Cannabis is the most abused drug, use of amphetamines and solvents is a continuing problem, and cocaine use has risen to some extent, but it is the upsurge in heroin consumption that has prompted the government to intensify its control and prevention efforts. In spite of record seizures, a heroin "fix" costs as little as $5 to $10 in some British cities. In Scotland the problem has been made even more worrisome by the spread of AIDS virus through needle sharing by heroin addicts.

Extent of the Problem

Drug abuse cuts across economic and social classes, and abusers encompass every kind of lifestyle from pop stars and the titled to the poor and unemployed. Nevertheless, many observers view unemployment, urban decay, poor education, and criminality as major factors in its increase. Unemployment is more than 13 percent nationally and more than 40 percent among youths in some inner cities. Drug crackdowns by police may have contributed to incidents that sparked a number of riots in the inner-city slums of several industrial cities last fall. 25X1

The growing social costs of drug abuse have produced a considerable change in the public and political perception of the problem. In a Gallup Poll in July 1986, 90 percent of the respondents thought the use of "heavy" drugs such as heroin and cocaine was a very serious problem, an increase of 18 percentage points over the August 1984 poll. Particular concern has been voiced for young drug users. Doctors specializing in chemical dependency illnesses estimate that 10 25X1 percent of secondary school children use illegal drugs at some time. 25X1

Government Efforts

The Thatcher government's control and prevention efforts include an education campaign on drug abuse, increased funds for local projects, a new drug intelligence unit, and initiatives to reduce the supply of drugs from abroad. Enforcement strength is being expanded, and drug investigators are being posted overseas to gather operational intelligence. Tough 25X1 legislation to confiscate the assets of drug traffickers enjoys broad bipartisan support and became law recently. More funds are being allocated for the development of services to treat drug abusers, but drug specialists believe that even the growing number of drug treatment clinics cannot deal with the scale of the problem. They point out the inadequacy of traditional methods of treatment and prevention, noting that volunteer organizations still supply virtually all rehabilitation services. 25X1

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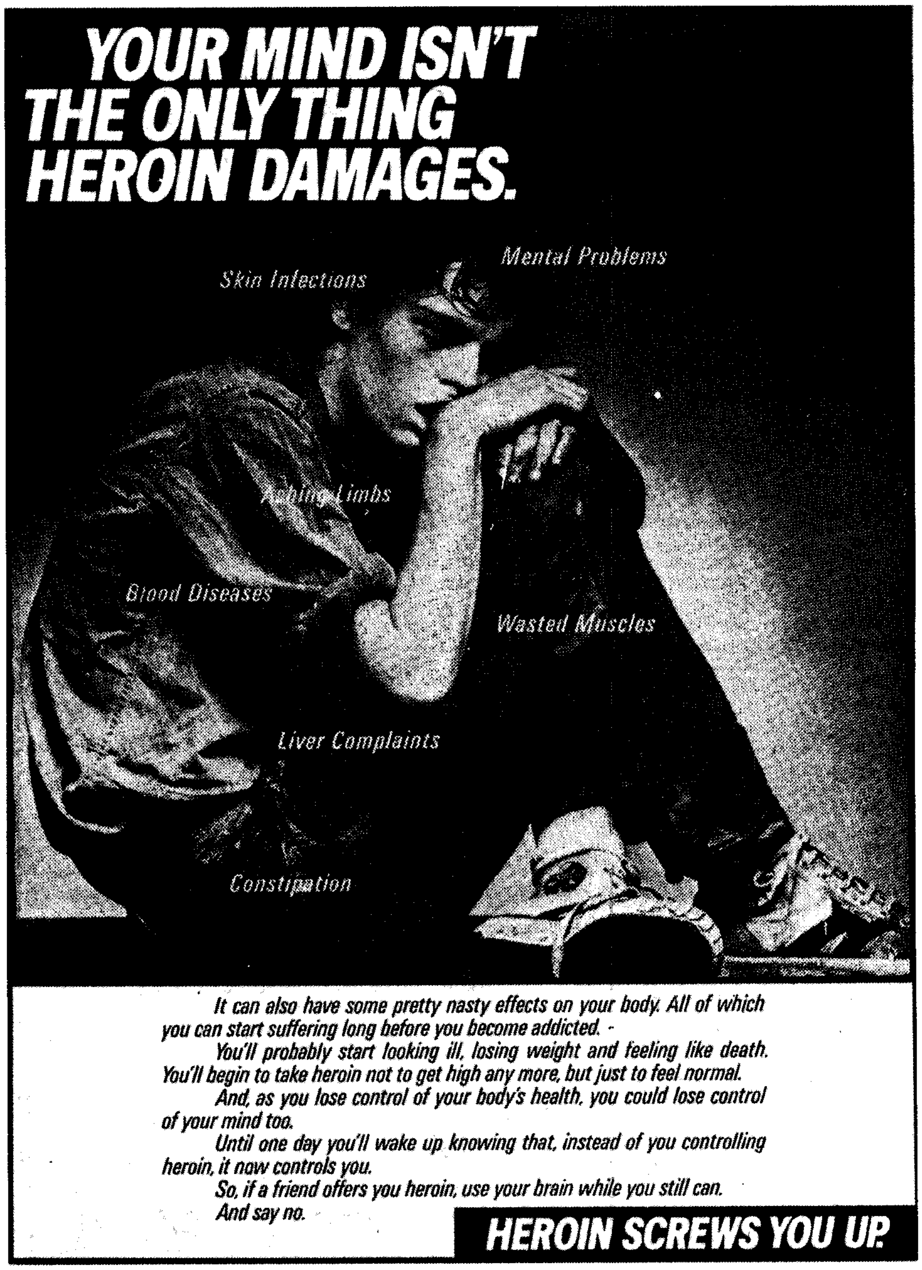
Ad in antidrug media campaign aimed at teenagers



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Drugs and Politics

All the major political parties now find it politically advantageous to be interested in combating drug abuse, and areas of disagreement are more likely to arise over treatment and prevention than over the seriousness of the problem. A Tory member of Parliament observed that antidrug measures command support "from saturated wet to bone dry" among the Conservatives and from "militant moderate to immoderate militant in Labor." 25X1

Departments With Drug-Related Responsibilities

The Home Office *is responsible in England and Wales for the scope, enforcement, and administration of the controls in the 1971 Misuse of Drugs Act and associated legislation. It has overall responsibility for coordinating the development and implementation of the government's policies and specific coordinating responsibility for prevention policy.* [redacted]

The Department of Health and Social Security *(DHSS) is concerned with services for the treatment and rehabilitation of drug abusers in England. The Welsh Office and the Department of Health and Social Services for Northern Ireland perform similar functions in these regions.* [redacted]

The Scottish Office *has a Home and Health Department with responsibilities that broadly correspond to those of the Home Office and DHSS in England.* [redacted]

The Overseas Development Administration *provides financial and technical assistance for drug control to developing countries, including some drug producer and transit countries.* [redacted]

The Board of Customs and Excise, *with a total strength of about 27,000, is tasked with the prevention and detection of illegal importation and exportion of drugs. It covers smuggling activities at ports and airports and also gathers intelligence about trafficking routes and techniques that may be used to intercept future operations.* [redacted] 25X1

The police *investigate and, in England and Wales, prosecute offenses involving the unlawful supply, manufacture, or possession of controlled drugs. In Scotland the responsibility for prosecution lies with the Crown Office and Procurator Fiscal Service, and in Northern Ireland with the Director of Public Prosecutions. In general, the police enforce the law in cases involving domestic offenses and those where imported drugs no longer have any direct link to the original importation. About 1,000 police officers are assigned to drug investigations.* [redacted]

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The police *operational response is at three broad levels:* 25X1

- *Uniform and plainclothes officers deal with offenses involving the individual user.*
- *Drug squads deal with the more serious cases of drug abuse and trafficking offenses within a police jurisdiction.* 25X1
- *Regional crime squads (nine in England and Wales, one in Scotland, and the National Drug Squad in London) investigate drug trafficking involving more than one police jurisdiction.* [redacted] 25X1

Critics contend government efforts will be largely ineffective so long as drug prices are low, profits from trafficking are high, and Britain's borders remain porous. We believe these criticisms are well founded and that British authorities are unlikely to make much headway in preventing the flow of drugs into and through the British Isles. Drugs will thus continue to be widely available on the streets of British cities. [redacted]

Implications

Drug traffickers will continue to use Britain as a transit point for drugs destined for the United States. Cooperation between Washington and London has been good in the areas of drug enforcement and interdiction, but the laundering of drug money in the United Kingdom and its dependencies continues to be a problem. Unlimited amounts of currency can be imported and exported, with no reporting requirements by British banks. Moreover, [redacted] the issue of extraterritoriality led London to issue guidelines in May covering investigative activity in the United Kingdom by nonintelligence agencies such as the US Drug Enforcement Administration and the Internal Revenue Service. Progress is being made, however, on a mutual legal assistance treaty that would allow the exchange of financial information with the United States on traffickers' assets and improve the exchange

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of evidence. Within the limits of their resources, the British also seem ready to take a more active role in tracking drug-related profits and in joint interdiction efforts with the United States in the Caribbean. 25X1

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West Germany: Progress on Financial Reform

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West Germany, over the last two years, has been quietly pursuing a program to liberalize and internationalize its financial markets. The Bundesbank, reversing its traditional hesitance toward innovation, has become the initiator of reform. The West Germans are concerned that, without deregulation, they will lose ground to fast liberalizing markets in Tokyo, London, and Zurich. We believe the recent reforms will improve credit allocation in West Germany, lower corporate borrowing costs, and better equip West German financial institutions to compete overseas, although these benefits will require time to accrue. Foreign corporations and financial institutions, in turn, will enjoy better access to West Germany's broadening capital markets. On the negative side, greater internationalization of the deutsche mark, which will coincide with loosened capital controls in France and Italy, could induce wider swings in West European currency values.

A Rigid System

West German authorities characterize the recent reforms as "residual liberalization" to emphasize their contention that West German capital markets have always been relatively free by international standards. The mark is freely convertible, restrictions on capital flows were generally eased in the 1960s, and West German citizens can purchase any currency. Interest rate regulations for the banking sector were abolished almost two decades ago. Unlike Japan, Canada, and the United States, West Germany does not demarcate its financial institutions by function: West German banks are "universal," and can engage in investment and trust activities as well as commercial banking.

Despite this ostensible liberality, West German capital markets remain relatively primitive. The bond market is dominated by government issues; the stock market is anemic; and the short-term money market consists almost exclusively of interbank dealings. Banks dominate the financial system, both as lenders to corporations and as recipients of private savings.

The chief factors inhibiting the development of mature capital markets in the past were discriminatory taxes and collusive arrangements between the Bundesbank and banking cartels. These cartels—particularly those involving the "big three" of Deutsche Bank, Dresdner Bank, and Commerzbank—acted to channel funds through the banking system and to discourage foreign participation in the capital markets. The Bundesbank tacitly endorsed this system as a means to tighten domestic monetary control and curb the reserve currency role of the deutsche mark. The government was particularly concerned during the 1970s that heavy capital inflows would inflate the domestic money supply and appreciate the mark, to the detriment of West German export competitiveness.

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Foreign investment in domestic deutsche mark (DM) bonds was discouraged by a 25-percent withholding tax on interest income. A "gentleman's agreement" with the major banks allowed the Bundesbank to tightly regulate the volume of DM bonds issued by foreign borrowers, for which only domestic banks could act as lead managers. The same agreement precluded currency swaps and floating rate issues, and the Bundesbank also prohibited short-term investment instruments—such as certificates of deposit (CDs) and money market funds—that could function as substitutes for bank accounts. The domestic banks, whose securities departments dominate both bond and equity trading, have a strong incentive to limit the number of financial instruments in order to keep both individual savers and corporate borrowers dependent on traditional bank operations.

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Forces for Change

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Despite their predilection for tightly controlled capital markets, the West German authorities have felt increasing pressure in recent years to relax the system. The economic events of the early 1980s—

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West Germany: Financial Liberalization Measures

	Action	Government Agency	Comment
August 1984	Abolished 25-percent withholding tax on interest of domestic bonds owned by foreigners.	Ministry of Finance	Matched similar abolitions by France and the United States.
May 1985	Abolished volume controls on foreign bond issues.	Bundesbank	Prenotification rules—though eased last July—allow continued monitoring by the authorities.
	Permitted resident, foreign-owned banks to lead manage foreign bond issues.	Bundesbank	Reciprocity clause excludes the Japanese.
	Allowed new financial instruments such as swaps, floating-rate, and zero-coupon bonds.	Bundesbank, Ministry of Finance	Applies to both domestic and foreign issues.
May 1986	Allowed certificates of deposit (CDs).	Bundesbank	CDs subject to minimum reserve requirements, which were lowered.
July 1986	Admitted foreign-owned banks into the government bond consortium.	Bundesbank	Domestic banks criticize the foreigners' 20-percent quota as excessive.

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deutsche mark weakness, dollar strength, and the shift in West Germany's capital account balance from surplus to deficit—convinced them of the need to increase the mark's attractiveness to foreign investors. The main motivation for financial reform, however, probably was the growing conviction in Bonn and Frankfurt that, without deregulation and innovation, West Germany would gradually be eclipsed as a world money center. Domestic institutions were already circumventing regulations to some extent by transferring operations abroad—by late 1985, domestic banks were conducting about 12 percent of their business volume overseas. The government and the central bank surmised that liberalized rule at home was preferable to no control over overseas activities.

For a nation somewhat suspicious of change, the speed with which West Germany has pursued deregulation has surprised financial analysts. The few remaining curbs on capital inflows were lifted in 1980-81 and, more important, Bonn abolished the 25-percent withholding tax on the interest earnings of foreigners effective August 1984. Last year, the Bundesbank authorized new capital market instruments, such as swaps and floating rate notes, and allowed foreign-owned banks to lead manage them and traditional bond issues. Minimum reserve requirements were eased this spring to help West German banks compete in Euromarkets, and short-term instruments—including CDs—were permitted. Finally, foreign-owned banks last month were given a share of the lucrative primary market for government bonds. 25X1

Improved Status for Foreigners

As a result of these measures, foreign banks now enjoy effectively equal treatment with domestic institutions. The number of such banks in West Germany has increased appreciably in recent years—reaching 300 by last December. The newcomers face an uphill struggle against the entrenched domestic banks, however, and few bond issues have thus far been successfully lead managed by non-Germans. The foreign-owned banks also experienced difficulty placing their initial allotments of government bonds. 25X1

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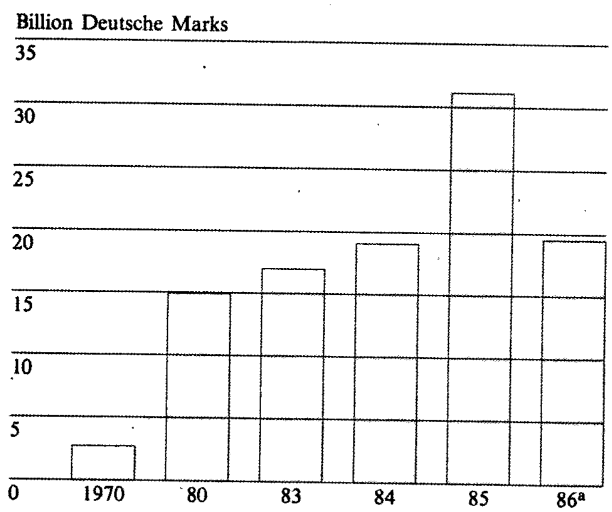
Gross Sales of Deutsche Mark Bonds by Foreigners, 1970-86



[a] January - May only.

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Foreign corporate borrowers may actually enjoy better-than-national treatment in West Germany because their bonds are not subject to the tough disclosure and collateral requirements applied to domestic companies. Gross sales of foreign DM bonds rose to DM 31 billion last year, 63 percent higher than the 1984 level. Foreign corporations should find their competitive position improved by access to West Germany's low-rate capital markets, although the volume of future borrowing will be sensitive to exchange rate expectations.

Remaining Impediments

While the actions taken thus far will broaden and internationalize West Germany's financial markets, obstacles to free competition and efficiency remain:

- Taxes on financial transactions still inhibit equity markets and short-term capital markets. The levy on securities transactions, for instance, has driven secondary trading of securities away from West Germany to centers such as London.

The Underdeveloped Stock Market

The West German stock market is small in relation both to the nation's bond market and to stock markets overseas. The recent bull market in West Germany was due almost entirely to foreign buyers, who accounted for about three-fourths of stock purchases last year. Risk-averse West German savers have never shown much enthusiasm for playing the market. 25X1

Most West German companies shun the stock markets as a means of raising capital—debt/equity ratios of West German firms are almost twice those of their counterparts in the United States and the United Kingdom. Only 450 companies are listed on the stock exchanges as of last December, and only about 30 stocks are actively traded. Bonn abolished double taxation of dividends almost a decade ago, which should have spurred development of the stock market. Recourse to equity financing, however, is still discouraged by taxes on the issue and resale of securities, the large fees charged by banks to sponsor equity issues, and the burdensome regulatory environment—including financial disclosure rules and worker participation rights in management—faced by firms that go public. Moreover, the many family-owned firms are reluctant to dilute their control with sale of stock to outsiders. 25X1 25X1

Reforms are in train to bolster the stock markets. The eight regional exchanges, led by Frankfurt and Dusseldorf, have formed an association to promote cooperation, common technical standards, and governmental lobbying. The Bundestag is considering bills to give privately held companies indirect access to the stock markets via investment companies or unlisted stock exchanges. The government may also ease regulations on equity purchases by institutional investors. These reforms, at best, will prevent the West German stock exchanges from falling further behind their international competitors. 25X1 25X1

- The Bundesbank requires that issues of DM bonds and CDs be domestically based. This "anchored in Germany" policy gives the authorities a latent means of control, and it precludes development of a true Eurobond market for deutsche mark securities.

- Bonds issued by domestic companies remain tightly scrutinized and regulated by the Ministry of Finance.

- Financial futures markets are still prohibited and an extensive reform of the nation's stock exchanges is needed.

Finance Minister Stoltenberg recently announced that the security taxes will be repealed if the conservative coalition remains in power after the January 1987 elections. Because the Finance Ministry must decide how to replace the $450 million raised last year by these taxes, however, they may not be abolished until 1988 or 1989. West German banks also continue to complain that the government's minimum reserve requirements, although reduced last spring, still handicap them in competing with London or Luxembourg for Eurocurrency transactions. The Bundesbank, however, has indicated that it will not abolish the requirements.

Market Developments and Implications

West German financial markets over the last few years have experienced a dramatic rise in the volume and variety of financial transactions, especially those linking the country to the rest of the world. The Bundesbank estimates that securities transactions with foreigners have increased more than fourfold since the early 1980s. Although large current account surpluses—$30 billion in 1986 by our estimate—destine West Germany to be a net capital exporter over the next several years, financial liberalization will promote a healthy, two-way capital flow. Particularly since the abolition of interest withholding, foreign investors have shown a strong appetite for West German bonds. In 1985, over 40 percent of domestic bonds were purchased by foreign investors. The foreign bond market has been characterized by larger volumes, longer maturities, and more participants, with Japanese, US, and Scandinavian firms tapping the West German market. The CD market has yet to show much life—only one issue by a US bank subsidiary has been undertaken—but this market could also flourish once the securities taxes are lifted. 25X1

Reversing a negative trend in the early 1980s, the importance of the deutsche mark in international transactions is increasing. According to the Bundesbank, the mark last year accounted for 14.5 percent of global exchange reserves while DM-denominated assets captured 7 percent of the world securities market. Because of the improved fundamentals of the West German economy and the new types of securities available, we expect the mark to continue to advance as an international financial asset. 25X1 25X1

Greater integration of the world and West German financial systems has important implications for exchange rate stability and monetary policy:

- The relative success of the European Monetary System (EMS) in reducing exchange rate fluctuations is, we believe, partly attributable to the limited mobility of capital among the member states. Because financial liberalization in West Germany coincides with major programs in France and Italy to relax exchange controls, the cumulative effect could be a tendency toward wider swings in West European currency values, hampering the operation of the EMS. In the long run, however, capital controls are incompatible with the EMS agreement, and liberalized West European capital markets are essential if the EMS is ever to evolve into a monetary union. 25X1

- We attribute wide fluctuations in the mark's value against the dollar partly to the inelastic supply of mark-denominated international assets relative to highly volatile demand of foreign investors. By increasing the supply of such assets, financial liberalization might help stabilize the mark/dollar exchange rate. 25X1

The West German authorities fear that the accelerating integration of domestic financial markets with those abroad will make the economy more vulnerable to shifts in exchange rate expectations and international interest rate differentials. They have reacted to the possible dilution of traditional monetary policy tools by turning toward more flexible, market-oriented instruments, such as increased open-market operations. We cannot exclude, however, that the West Germans might revert to some form of guidance over capital flows if faced with dramatic exchange or interest rate swings.

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Turkey: Modernizing the Defense Electronics Industry [redacted] 25X1

Turkey hopes to modernize its relatively new electronics industry by coproducing subsystems for major new weapons but will need extensive US or West European technology, training, and capital. Within the last year, Ankara has proposed several joint ventures with the United States and other NATO countries to produce electronic components in Turkey for the F-16 aircraft, Stinger missile, and the multiple-launch rocket system (MLRS). These projects would bring the country much-needed advanced electronics design and manufacturing technology and move it into the age of semiconductor technology. Prospects are good that all subsystems except those for the Stinger missile project—where negotiations have stalled—will be coproduced in Turkey. An advanced electronics industry is a key element in Ankara's military-industrial modernization program and, if achieved, would move Turkey a step closer to self-sufficiency in arms production. Modernizing the industry, however, will be a long-term, complex, and expensive undertaking, and early products are likely to be of low quality. [redacted]

The Three Principal Producers
Turkey has three major companies capable of performing defense electronics work:

Aselsan is the largest and designs, manufactures, markets, and services a wide range of military and commercial radio communications equipment. A state-owned company, it was established in Ankara in 1975 to equip the Army with modern electronic equipment. Aselsan began production in 1979 and exporting in 1984. Today, its business base, according to company reports, is equally divided among the Turkish armed forces, domestic commercial sales, and export markets. The company's products include VHF/UHF/FM radios, digital navigation equipment, telephone scramblers, computer-controlled alarm systems, and field telephones. Its printed circuit board technology is equivalent to that available in the United States in the mid-1950s. Aselsan wants to expand into new product categories, including electronic warfare, industrial electronics, and aircraft avionics equipment. [redacted] 25X1

Teletas, located in Istanbul, is the second-largest electronics company and was established in 1967. Unlike Aselsan, the firm is privately owned, which limits the financial resources available for new equipment and new product development. Its opportunities for military-related projects are also narrow because such work is usually reserved for state-owned companies like Aselsan. Teletas produces analog telephone and telegraph multiplex systems, power supplies, electronic teleprinter machines, and single- and double-sided printed circuit boards for a variety of applications. [redacted] 25X1

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Teknim, located in Ankara, is the smallest of the electronics firms. Like Teletas, it is privately owned. According to company brochures, it had only $2.5 million in sales last year, about the same as a US firm of comparable size. The company produces two-way, hand-held radios and transceivers for the commercial market. [redacted] 25X1 25X1

[redacted] 25X1

Industry Strengths and Weaknesses
[redacted] the electronics firms are well designed and managed and offer workers excellent fringe benefits by Turkish standards. 25X1 [redacted] Aselsan is considered the best place to work in Turkey, and there is no shortage of qualified applicants. [redacted] 25X1 [redacted] the discipline and motivation of the work force and the dedication of management in the 25X1 25X1

industry are excellent. The supply of engineers is more than adequate for industry needs, and most engineers are graduates of the Middle East Technical University in Ankara. [redacted]

Despite these strongpoints, the industry suffers from serious shortcomings, most notably its lack of experience in moving a product from the laboratory into manufacturing. [redacted] They also lack the trained manufacturing support technicians essential for the transition. Nor do they possess the quality assurance methods and procedures required to guarantee product quality. Without a good quality assurance program, high rework costs and substantial delays in delivery schedules can be expected when the firms undertake production of items based on more advanced technologies. [redacted]

The industry also lacks significant hands-on experience in semiconductor manufacturing technology. Aselsan, [redacted] has a semiconductor capability, but it is confined to the R&D lab and has not been tested in the manufacturing environment of the main plant. [redacted]

Another weakness is the absence of sufficient planning to modernize the industry. The government's five-year plan for electronics contains less than one page of very general discussion, with no specific investment or growth targets. The section on the closely related area of telecommunications states that the domestic telecommunications structure is inadequate in all relevant technologies and cannot currently meet demand. Although the plan stresses the intent to become self-sufficient in five to seven years, it provides neither investment nor capitalization commitments for achieving this goal. [redacted]

The New Products Will Require New Technology

The specialized electronic components of the Stinger and MLRS use multilayered printed circuit boards, and the F-16 radar requires some integrated circuits. [redacted] the Turkish electronics industry would have no difficulty in producing simple, uncomplicated components like power distribution boxes, electrical harnesses, and electronics boxes for the MLRS. [redacted]

Integrating the New Technologies

We believe effective Turkish involvement in any of these projects would require large amounts of Western technology transfer, training, and money. To meet the quantity and quality requirements of the joint ventures, [redacted] Turkey's electronics firms would need to hire and train substantial numbers of new workers. [redacted]

The Benefits of Western Support

We doubt that—without prolonged, extensive foreign assistance—Turkey will be able to operate a modern electronics industry capable of producing advanced-technology products. Allied assistance could provide the necessary new machinery and long-term training programs necessary to at least begin the modernization of the industry. Turkey also would

require substantial financial assistance that [redacted] 25X1
[redacted] might run to $50-100 million for equipment purchases alone. The time needed to educate and train the design and engineering staffs to support the technology in production could be at least two years because most of the engineering graduates in electronics receive primarily academic training with very little hands-on experience. [redacted] 25X1

An up-to-date defense electronics industry is almost a prerequisite to Ankara's achieving its ambitious military-industrial modernization goals. If the industry can absorb the new technology, it will be able to proceed with development of advanced electronic products having both military and civilian applications. Turkey believes that the export market for these products within the Islamic world is large and that—being an Islamic state itself—it would have an advantage over potential competitors. Regardless of the market potential, a more advanced electronics industry would move Turkey closer to self-sufficiency in outfitting its armed forces with modern weapons. [redacted] 25X1

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